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DEPARTMENT PLEASE PASS TO NSC FOR ADAM STERLING

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SUBJECT: WITH ALL DELIBERATE SPEED: CABINET MINISTER KISS
AND THE QUESTIONABLE COMMITMENT TO REFORM

Classified By: P/E Counselor Eric V. Gaudiosi, Reasons 1.4 (B) and (D)

¶1. (C) Summary: Cabinet Minister Kiss met with Ambassador Foley and DCM July 25 to review the state of playing on the government's reform agenda. Kiss embraced the challenge of improving dialogue on the issues, professing confidence in the recent coalition agreement and downplaying friction both in the coalition and within the MSZP itself. He outlined a "step-by-step" approach on health care and tax reform, but Kiss' reputation - and his rivalry with PM Gyurcsany - give us minimal confidence that the government will move quickly on further reforms.

THE SMILING WHIP

¶2. (C) Referring to his recent return to being the "government's smiling whip" as Minister for Cabinet Affairs, Kiss readily conceded that his job presents "an enormous challenge." He had returned to the Prime Minister's Office (PMO) "despite warnings from my friends," but projected confidence regarding the government's ability to move forward in "stabilizing governance" by providing "more detailed directions" on issues ranging from health care and party financing to environmental protection and economic development. On health care, he reiterated the government's goal of having the law introducing a public-private system enacted by mid-September to enter into force by January, 2009.

¶3. (C) Overall, Kiss hopes to focus the government "less on talk and more on solutions." He described the Ambassador's reference to popular skepticism as "very mildly put," conceding that the public has "many - and often legitimate - negative sentiments." He recognized the significant political risks of "uncertainty" through 2008 as the 2009 European Parliamentary Elections approach.

¶4. (C) But, he continued, the government's road map represents "the fastest track possible." He believes public confidence will be buoyed by growing recognition of the convergence plan's success, a visible infusion of EU development assistance to localities, and the intrinsic benefits of reforms. He advised that the government had finalized plans re the allocation of the first tranche of development assistance earlier in the day by earmarking 500 million HUF for various projects. Kiss noted that the government will continue to announce further funding decisions "every two weeks." (Note: the projects announced include high visibility museum renovation and tourism promotion. End Note.)

¶5. (C) Turning to the opposition-sponsored referendum, Kiss accentuated the positive, maintaining that the process should offer the opportunity to "really debate the issues" and "make course corrections as necessary." He framed the referendum in the context of his commitment to "less talk; more dialogue," hoping that the process of debate would highlight

areas of consensus as well as conflict. In his view, the key will be shifting the public conception of the referendum from a vote of confidence in the government to a focus on specific issues.

¶6. (C) Kiss' views contrast with public statements made by Gyurcsany, who insisted July 25 that the referendum "will not change" reforms in health care and education in that the government would merely identify revenue sources other than public fees.

TAX REFORM: PLAN NOW; PAY LATER

¶7. (C) On tax reform, Kiss commented that the government would turn from a near-term focus on "simplifying the system and whitening the economy" to "restructuring the system and focusing on employment and competitiveness.". He hopes the tax reform proposal will be adopted this fall and implemented in 2009-2010.

¶8. (C) The government will also take this "two-step approach" on administrative reform, focusing first on the ongoing reform of the educational system to promote competition and focus on the individual customer through a result-based process.

THE COALITION: THE RABBIT CARRIES THE GUN

¶9. (C) Responding to the Ambassador's question regarding the unity of the governing coalition, Kiss joked that the SzDSz's current disproportionate influence on the government was much like "the rabbit carrying the gun." He attributed much of the recent friction to the "inexperience" of the party's new leadership and its desperate need to differentiate itself

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from the MSZP to stave off "extinction" in the next elections. As he has in recent (and rare) public statements, Kiss took the high road, commending the SzDSz's "unquestionable commitment to liberty and modernity" and remarking that the senior coalition party must accept responsibility for "the coalition and the country." In the near term, Kiss predicts that the SzDSz will retain the Ministry of Economy even after Koka's departure.

THE MSZP: DISCIPLINED DIVERSITY?

¶10. (C) With respect to the dynamic within the MSZP, Kiss commented that "diversity is good ... but we remain disciplined." (Comment: He is unconsciously echoing remarks made by FIDESZ leader Viktor Orban, who frequently notes the MSZP's traditional ability to close ranks. End Note.) If the government is to ask for societal consensus, he continued, it must set a good example of soliciting alternative viewpoints.

¶11. (C) That said, Kiss believes that "our program will survive our current poll numbers." Recalling the Horn government of the mid-90s, Kiss believes the present coalition is more united and similarly capable of rebounding from historic lows in popularity. "We have been written off before," Kiss recalled, asserting that the government is capable of dealing with its present challenges. "So many simultaneous changes would be difficult to digest even if we had done everything right," he concluded, "and we obviously have at least 12 months hard work ahead of us."

THE HUMAN FACTOR

¶12. (C) Commenting on his own personal relationship with PM Gyurcsany, Kiss recalled their long acquaintance and commended Gyurcsany's sharp - but impulsive - intellect. "He wants to win every fight," Kiss commented, "even the ones that aren't there." "But," he continued, "the party does not want the PM to be left alone." Kiss will accordingly "give it a chance," but closed with the cryptic remark that he

"hopes Hungary will show a better face than it is now."

COMMENT: REVENGE OF THE APPARATCHIKS?

¶13. (C) Kiss is a good diagnostician but a suspect surgeon. He is correct in noting the importance of a more coherent and consultative approach to reform, as many of the government's initiatives have been imposed by virtual fiat only to be revised or reversed in practice. With his reputation as a sharp administrator and political insider, Kiss might be able to ride herd on the ministries (and the sprawling PMO itself). But the herd is barely moving, and Kiss is a curious choice to light a fire under the stalled reform process. As one Ambassador here commented with regard to Kiss' reputation as a "consummate apparatchik," he is "awfully young to be so old." Other MSZP power-brokers tell us their approach is to "do nothing that might get the people stirred up," and Kiss seems more focused on deliberation than on speed. Indeed, senior corporate representatives here are "underwhelmed" by the government's progress in delivering on its commitments to improve the business climate, and describe Kiss in particular as "genetically opposed to reform." The coalition agreement which he cited repeatedly is already under fire from both SzDSz and MSZP Parliamentarians, and the referendum he passed off as a chance to engage in dialogue may actually give Kiss his chance to rationalize a further slow-down on reform ... and perhaps a fast move to replace Gyurcsany. End Comment.
FOLEY